Special Report to the State of Alaska Legislature and Administration

January 2005

INTRODUCTION

Up until the mid 1990s, the Alaska Railroad could have been considered a respectable “1960s” railroad. It served the state year after year by hauling freight and passengers over miles of aging track and bridges, using aging equipment. Much of the route was without signals and out of radio coverage. Older less powerful locomotives were teamed to pull trains slowly through a serpentine track system that was routinely subject to floods, rock falls and snow slides. Understandably, tightly scheduled regular operations had not even advanced to the wishful thinking stage. Despite all the challenges, the railroad persisted, perhaps personifying in the minds of many Alaskans “The Little Engine That Could” or “John Henry the Steel Driving Man.”

Well not any more. All that has changed. Now, 4,000 horsepower diesel locomotives, new equipment and facilities, state-of-the-art communications and signal technology, and a stronger, straighter, faster, safer track embody the railroad's contemporary modern status.

Modernization efforts over the last nine years have enabled us to make another overall strong showing in 2004. Present indications are that 2004 will equal or better 2003, which was the railroad's most profitable year in history. Passenger services experienced its most successful year ever. Ridership, north and south, grew by an average of 9%. Freight totals, while not quite as robust as 2003, still turned in a very solid performance.

Outstanding safety results once more highlighted employee performance. We had fewer and less severe injuries, despite the highly challenging working conditions. In fact, the railroad has seen a 69% reduction in employee injuries over the last five years. We turned in similar improvements for equipment derailments and damage. As a result of nearly equaling last year's best ever safety record, I believe we have established a new company standard in safety. By raising the bar for 2005, our goals will look formidable. We are up to the challenge.

How has modernization contributed to such repeated operational and financial strength? New technology is adding speed and capacity while increasing reliability. Concrete ties, with a 100-year life expectancy, compared to 40 years for wood ties, are being installed throughout the line. When you notice the lack of wheel "clickety-clack," it's because we are welding the track joints, which greatly reduces maintenance costs, increases safety, and leads to quieter, happier neighborhoods along the railbelt. Investment in new equipment is contributing to higher margin business. Quality and reliability are watchwords in shop maintenance, backed by better machinery and data systems. Facility upgrades and renovation are assuming a much higher priority than in years past in order to improve the workplace environment.

In short, a balanced, robust investment in capital improvements has, and will continue to modernize the Alaska Railroad. The question becomes where should we focus specific investment expenditure in the next five years? The Alaska Railroad capital program first addresses this question by listing in this document three guiding priorities. In order they are:

1. Safety improvements: rail, ties, signals, bridges, maintenance and communications are the blocking and tackling fundamentals of safe railroad operations and must therefore continue receiving our undivided investment attention.
2. A better, safer quality of life on the job: employees must be well equipped, educated and trained. This plan invests significant dollars toward improving the work place and personal skills of our employees.

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3 Increased capacity for future business: to remain financially successful we must increase net earnings, which is a function of attracting and retaining more high margin business while simultaneously reducing expenses. This plan invests in new locomotives, track equipment, railcars, technology and other programs that provide good return on investment, which will keep us moving steadily towards our ambitious business goals.

As we assess the future, it's clear that the Alaska Railroad must increase load capacity in order to simultaneously support the gas pipeline project, new passenger business, increased coal and gravel production, and growth in refined petroleum movement. We must also cultivate win-win strategic relationships with the state, railbelt communities and the military if we are to succeed at new economic development opportunities such as the rail line extension to Fort Greely/ Delta Junction.

This long range capital improvement and program plan will be used to guide the Alaska Railroad. It will point us in a direction that insures Alaska a safe, reliable, expedient railroad with which the communities and rail customers can partner to meet today's requirements while we jointly plan with confidence for tomorrow. Clearly the "Little Engine that Could" is evolving rapidly into a world-class 21st century railroad that Can!

Respectfully,

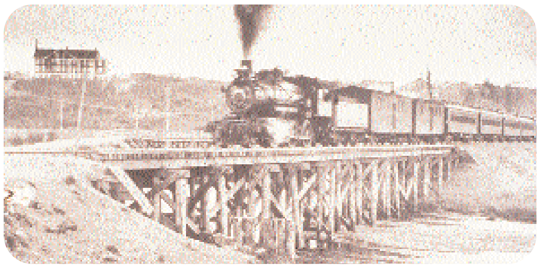
Pat Gamble

Patrick K. Gamble
President & CEO

"... a balanced, robust investment in capital improvements has, and will continue to modernize the Alaska Railroad. The question becomes where should we focus specific investment expenditure in the next five years?"

CORPORATE FOUNDATION

The Alaska Railroad has a solid foundation in its tenure, structure, and governing statutes.



History

The United States government built the Alaska Railroad between 1914 and 1923. The federal government operated the railroad until January 1985, when it was purchased by the State of Alaska for $22.3 million to serve Alaska business and communities as an engine of community development and economic growth. The Alaska State Legislature created the Alaska Railroad Corporation (ARRC) in 1984 as an independent entity to own and operate the Railroad and to manage Railroad property after transfer. Transfer itself was codified in both Federal and State transfer law, each providing the legislative wisdom that has enabled the Alaska Railroad to be self sufficient and successful for nearly 20 years.

The State Legislature appropriated $11.9 million to the new corporation for start-up costs because the federal government retained the railroad bank accounts at the time of transfer. The federal government retained control of the cash because it also retained responsibility for all payables and other liabilities that had risen during the period of federal ownership (including, for example, workers compensation claims). The state appropriation was sufficient to cover two payrolls and the costs of several on-going capital projects.

Board of Directors

ARRC is a statutory corporation, managed by a board of directors appointed by the Governor. The seven-member board consists of the Commissioner of Transportation & Public Facilities, the Commissioner of Commerce, Community & Economic Development, one member representing ARRC labor organizations, at least one member with 10 years of management experience on a U.S. railroad, two members representing the two judicial districts in which the ARRC operates, and one member who is a State businessman.

Business Facts

While wholly owned by the State of Alaska, ARRC is an independent authority responsible for all of its own financial and legal obligations. According to statute, ARRC is mandated to be a self-sustaining corporation required to conduct its business without operating subsidies from the state.

ARRC has commercial property including docks and/or rail in four ports and serves communities from the Gulf of Alaska to Fairbanks. It is the only remaining full-service railroad in the United States, providing both year-round regularly scheduled freight and passenger services.

From tidewater at Whittier and Seward to the heart of Interior Alaska in Fairbanks, ARRC's route covers 466 miles. There are 611 total miles of track including spurs, industrial and yard track.

ARRC's operations are supported through revenues generated by freight, passenger and real estate services. Maintenance and operations centers are located in Seward, Whittier, Anchorage, Healy and Fairbanks.

Employees

As of December 2004, ARRC employed 716 full-time employees with an additional 100 seasonal employees from May through September. The Alaska Railroad has an Alaska hire rate of more than 90%. ARRC employees are not compensated through the State's personnel system and are not members of the State's retirement system (PERS). ARRC employee wages and benefits (approximately $62.2 million in 2004) are funded exclusively through corporate revenues and grant funds. Five different unions, representing 517 ARRC employees, negotiate contracts with the corporation.

Finances

With total revenues of $114.4 million and total expenses of $99.6 million, the Alaska Railroad netted $14.8* million in 2004. Transportation of petroleum products, gravel, coal, oilfield and mining supplies, chemicals and consumer goods account for 66% of ARRC's gross revenues. ARRC serves almost a half million passengers each year, accounting for approximately 11% of gross revenues.

ARRC owns approximately 36,000 acres of land. Of that, 14,000 acres are right-of-way and 4,500 acres are used in operations. The remaining land can be leased or permitted to help generate revenue for ARRC. Real estate revenues generally account for about 10% of the corporation's gross revenues.

The Railroad invests all cash flow generated by annual net earnings and depreciation on capital improvements to its 611 miles of track, 169 bridges, 79 crossing signals, train signals, the roadbed, equipment, and other asset enhancements.

Additionally, significant operating dollars are spent on maintenance of rail cars, locomotives, employee

training, technology improvements, safety, security, and environmental initiatives. A well-balanced capital investment program is absolutely essential to corporate vitality and growth, and the President/CEO personally oversees the balancing process.

* unaudited

More about how ARRC relates to State government

The Alaska Railroad Corporation Act of 1984 established an independent state-owned corporation. Railroad employees are technically not state employees in that they receive pay, benefits, and retirement all from the ARRC, not the state. Unlike other independent Alaska state corporations (such as the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority), ARRC's federal enabling statute specifically requires that all revenue earned by the Railroad shall be retained by the corporation for railroad purposes. The intent was to ensure the Railroad had control of all the funds it needed to meet basic maintenance needs, improve the asset for increased safety and profitability, and could avoid having to rely on the state general fund. The Railroad's annual net earnings are all invested back into the corporation. Although ARRC is not covered under the State's Executive Budget Act, the state government ensures oversight of ARRC's operation and management practices through the following:

- The ARRC Board of Directors is responsible for initiating both a financial and performance audit each year. As required by statute, the financial audit is performed by an independent certified public accountant. A recognized railroad management expert conducts the annual performance audit to ensure ARRC is managed and operated effectively and efficiently. Copies are provided to the Governor and the Legislature
- ARRC must file an oversight report with the Legislature and Governor before it undertakes certain expansion, reduction, or diversification of train services.
- Legislative approval is required for certain corporate actions, such as disposing of the Railroad's entire interest in land, or leasing land for longer than 55 years, or selling tax free bonds.
- The Legislative Budget and Audit Committee regularly reviews ARRC's operation and management practices.
- ARRC's procurement procedures are required to be substantially equivalent to state procurement requirements.
- ARRC employees and directors are subject to the Executive Branch Code of Ethics, but not the Sarbanes/Oxley Act.
- The Commissioners of the Alaska Dept. of Transportation and Public Facilities and Dept. of Commerce, Community and Economic Development both serve on ARRC's board of directors.
- ARRC's spill prevention and response plans are filed and regulated by the State; ARRC is required by state law to show sufficient financial responsibility to respond to spills.

ARRC Today

Alaska Railroad "Quick Facts"

Purchase Price (Jan. 5, 1985)

Paid to federal government	$22.3 m
Start-up costs & contributed capital	$11.9 m
Total Investment-State of Alaska	$34.2 m

Organization (following State purchase)

- Independent corporation owned by State
- Managed by a seven-member board of directors appointed by the Governor
- Mandated to be self-sustaining, responsible for all financial and legal obligations

Operating Data

Miles of main line	466
Miles of branch line	59
Miles of yards and sidings	86
Total miles of track	611
Freight cars (owned & leased)	1,625
Passenger cars	42
Locomotives	60

Operating Statistics (Jan. 1-Dec. 31, 2004)

Passenger ridership	499,123 passengers
Freight tonnage	7,595,904 tons

Financial Statistics

Total Assets	$ 514.2 m
Total 2004 revenues	$ 114.4 m
Total 2004 expenses	$ 99.6 m
2004 net income	$ 14.8 m
Budgeted 2004 net income	$ 5.5 m

Employees (December 31, 2004)

Number of year-round employees	716
Average years of service	11
Average age	44
Male	593
Female	123

Unions

A majority of ARRC employees are members of five unions, including:

United Transportation Union	130
Transportation Communication Union	39
International Association of Machinists	65
American Federation of Govt Employees	273
American Train Dispatchers Department	10

Alaska Railroad Organizational Chart

- Governor • State of Alaska
  - ARRC Board of Directors
    - ARRC President/CEO Pat Gamble
      - VP Corporate Affairs Jim Blasingame
      - VP Operations/COO Matthew Glynn
      - VP Finance/CFO Bill O'Leary
      - VP Real Estate Jim Kubitz
      - VP Projects-Eng-Tech-Signals Eileen Reilly
      - VP Markets-Sales-Svcs Steve Silverstein
      - VP Legal/General Counsel Phyllis Johnson

Vision

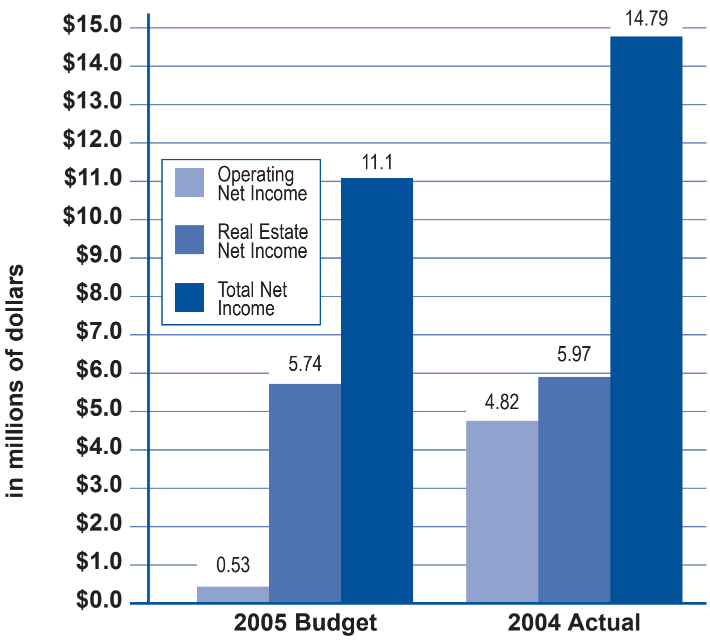
Building a Great Railroad across the Great Land

Mission

1 Be profitable while delivering safe, high quality service to our freight, passenger, and real estate customers.

2 Foster the development of Alaska's economy by integrating Railroad and railbelt community development plans.

Net Income Comparison — 2004 Net Income to 2005 Budget

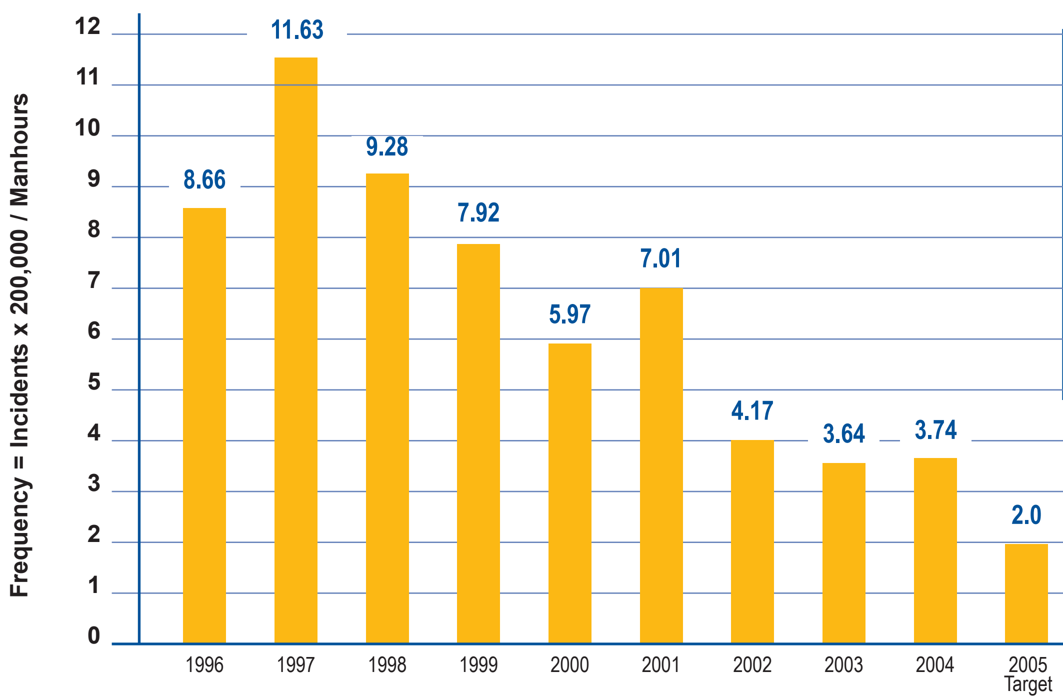


Bottom Line

	2005 Budget	2004 Actual
Operating Revenue	$ 104,125,007	$ 103,576,152
Operating Expense	(103,595,268)	(98,752,290)
Net Income from Operations	529,739	4,823,862
Real Estate Income	10,296,775	10,428,155
Real Estate Expense	(4,556,462)	(4,454,089)
Net Income from Real Estate	5,740,313	5,974,066
Interest Income/Expense	(813,608)	(711,954)
Net Income Before Preventive Maintenance Reimbursement	5,456,444	10,085,974
Preventive Maintenance Reimbursement	5,642,286	4,699,436
Net Income	**$ 11,098,730**	**$ 14,785,410**
Operating Ratio	**99%**	**91%**

Safety

ARRC Injury Frequency



Year	FRA Incidents
1996	45
1997	64
1998	54
1999	51
2000	39
2001	50
2002	30
2003	26
2004	28

ARRC MILESTONES

Each year the Alaska Railroad takes stock of its acomplishments and challenges. From this analysis, the management team establishes goals and objectives for both the short and long terms.

ARRC Five Year Objectives

- Reduce employee injuries to no more than 2.0 per 200,000 man hours.
- Eliminate 25% of at-grade highway/railroad crossings.
- Achieve and sustain an operating ratio of at least .96 by 2006.
- Generate and sustain company-wide cash flow, measured as net income plus depreciation, of $25 million per year.
- Generate and sustain cash flow from real estate activities of $8 million per year by 2009.
- Reduce average running time for freight trains between Anchorage and Fairbanks to consistently under eleven hours.
- Implement Collision Avoidance System technology by 2007.
- Execute the Reliability Excellence transition plan by 2009.
- Set up an annual programmatic investment plan for ARRC facility infrastructure, including yards and marine facilities, to meet business, growth, employee, and community requirements.
- Ensure ARRC attracts and retains excellent employees by being known as a premier Alaskan employer and by continuously improving our employee working environment, remuneration, and benefits.
- Position ARRC to take advantage of its unique bonding ability by establishing a corporate financial entity whose goal is to generate a predictable, sustainable revenue stream from such financing activities.
- Work to ensure ARRC business and development plans align with railbelt community business and development efforts whenever possible.
- Maximize return from existing business relationships and seek out new profitable opportunities without sacrificing excellent customer service.
- Extend the rail line to Delta Junction.
- Procure motive power and rail cars to support the growing Department of Defense mission in Alaska.
- Be prepared to support the construction of a gas pipeline.

"Alaska needs a safe, reliable, flexible railroad with which the communities and rail customers can better partner to meet today's requirements, while planning confidently for tomorrow."

2005 Corporate Goals

Safety

- Achieve 2005 ARRC safety goals
- Reduce workers compensation expense by 10% compared to 2004

Financial

- Better the 2005 budgetary target of an operating ratio of .99
- Generate $23 million of cash flow to support internal capital/grant match needs
- Generate $6 million of cash flow from real estate activities
- Complete approved 2005 capital work plan with no more than $1.5 million in carryover to 2006
- Establish the corporate structure and build the team necessary to capitalize on tax-exempt financing opportunities

General

- Achieve 75% success of winter service Healy run-through initiative
- Initiate the Reliability Excellence program in the Mechanical Department, using the Computerized Materials Management System (CMMS) as a key tool
- Improve employee working conditions by making workplace facility improvements a budgetary priority for Fairbanks, Anchorage, and throughout the ARRC
- Move into the new Operations Center by March 2005
- Ensure community planning and development needs with regard to ARRC are met through continued active participation with stakeholders

"A well-balanced capital investment program is absolutely essential to corporate vitality and growth."

Five-Year Forecast — Capital Budget

(in millions)	2005 Budget	2006 Forecast	2007 Forecast	2008 Forecast	2009 Forecast	TOTAL
ARRC Internally Generated	$ 15.80	$ 23.09	$ 23.80	$ 26.46	$ 29.27	$ 118.42
Federal Railroad Administration	*48.81	9.93	9.93	9.93	9.93	$ 65.51
Federal Transit Administration	5.83	6.00	6.18	6.37	6.56	$ 30.95
Total	$ 70.44	$ 39.02	$ 39.91	$ 42.76	$ 45.76	$237.89

* *Includes $23.0 million in funding from the Department of Defense*

Five-Year Capital Project Plan - Internal Funds

Project Description	2005	2006	2007	2008	2009	Total
Program Category						
Vehicle and Heavy Equipment Program (1)	$ 1,860,000	$ 4,525,000	$ 3,814,500	$ 3,610,000	$ 3,200,000	$ 17,009,500
Maintenance (2)	$ 2,252,238	$ 2,522,300	$ 4,240,000	$ 6,190,000	$ 6,720,000	$ 21,924,538
Mechanical (3)	$ 1,022,000	$ 1,034,000	$ 1,505,500	$ 2,199,500	$ 3,788,000	$ 9,549,000
Transportation Services	$ 2,800,000	$ 3,325,000	$ 2,475,000	$ 3,455,000	$ 2,525,000	$ 14,580,000
Passenger Operations	$ 43,000	$ 50,000	$ 75,000	$ 65,000	$ 65,000	$ 298,000
Health, Safety and Environment	$ 220,000	$ 650,000	$ 680,000	$ 650,000	$ 650,000	$ 2,850,000
Markets, Sales and Service (4)	$ 1,000,000	$ 2,087,000	$ 2,455,000	$ 4,200,000	$ 4,450,000	$ 14,192,000
Corporate (5)	$ 850,000	$ 602,000	$ 1,450,000	$ 450,000	$ 1,450,000	$ 4,802,000
Finance (6)	$ 250,000	$ 1,121,200	$ 1,025,000	$ 1,025,000	$ 15,000	$ 3,436,200
Information Services	$ 508,000	$ 550,000	$ 710,000	$ 325,000	$ 307,000	$ 2,400,000
Telecommunications and Signaling (7)	$ 492,000	$ 1,828,500	$ 450,000	$ 850,000	$ 1,050,000	$ 4,670,500
Real Estate and Facilities	$ 4,500,000	$ 4,795,000	$ 4,920,000	$ 3,440,500	$ 5,050,000	$ 22,705,500
Total Internal Projects	$ 15,797,238	$ 23,090,000	$ 23,800,000	$ 26,460,000	$ 29,270,000	$ 118,417,238

Notes:

(1) Increases in 2006 through 2009 are for replacement of on-track maintenance equipment
(2) Increases in 2007 through 2009 predominantly relate to avalanche mitigation
(3) Increases in 2008 and 2009 are for new freight car repair facility, locomotive drop table, and investment in distributive power
(4) Increases in 2006 through 2008 reflect replacement of various rail cars assets such as steel hoppers and other freight cars
(5) Increases in 2007 and 2009 represent expenditures to implement AEI/RFID technology
(6) Increases in 2006 through 2008 support replacement of financial legacy systems
(7) Increases in 2006 and 2009 are for 2 new radio office controllers and SATS site redundancy (microwave)

Five-Year Capital Project Plan - Federal Funds

Project Description	2005	2006	2007	2008	2009	Total
Department of Defense (DOD) - Base Line Change						
Base Line Changes - 2005	9,000,000					9,000,000
Department of Defense (DOD) Northern Line Extension						
Environmental/Engineering	14,000,000					14,000,000
Total DOD Funding	23,000,000	-	-	-	-	23,000,000
2005 FRA Rehabilitation Program						
Siding Extension						
Fairbanks Intermodal Construction	913,100					913,100
Rehabilitation Program						
Track Rehabilitation	14,698,925	8,175,000	8,175,000	8,175,000	8,175,000	47,398,925
Shoulder Widening		750,000	750,000	750,000	750,000	3,000,000
Collision Avoidance System	2,997,350	1,000,000	1,000,000	1,000,000	1,000,000	6,997,350
Healy Canyon Stabilization	1,885,750					1,885,750
Bridge Program	1,091,750					1,091,750
Replace Bridge F5.7 (2004 PE)	2,977,500					2,977,500
2005 Engineering/NEPA/SHPO	248,125					248,125
Subtotal	23,899,400	9,925,000	9,925,000	9,925,000	9,925,000	63,599,400
Total FRA Track Program	24,812,500	9,925,000	9,925,000	9,925,000	9,925,000	64,512,500
2005 FRA Research & Development						
Crossbuck Illumination	992,500					992,500
Total FRA Funding	25,805,000	9,925,000	9,925,000	9,925,000	9,925,000	65,505,000
FTA 5309 Fixed Guideway Formula Funds						
Preventive Maintenance	2,155,999	2,380,330	2,451,740	2,525,292	2,601,051	12,114,412
Equipment: Bag Car Acquisition	155,000					155,000
Subtotal	2,310,999	2,380,330	2,451,740	2,525,292	2,601,051	12,269,412
FTA 5307 Urbanized Area Formula Funds						
Preventive Maintenance	3,486,287	3,590,875	3,698,602	3,809,559	3,923,846	18,509,169
Transit Security (minimum project value of 1% 5307 funds)	32,006	32,966	33,955	34,974	36,023	169,924
Subtotal	3,518,293	3,623,841	3,732,557	3,844,533	3,959,869	18,679,093
Total FTA Funding	5,829,292	6,004,171	6,184,297	6,369,825	6,560,920	30,948,505

*** FTA funding categories include estimated recission of .75%

Five-Year Plan — Operating Budget

(in millions)	2005 Budget	2006 Plan	2007 Plan	2008 Plan	2009 Plan
Operating Revenues	$ 104.13	$ 106.97	$ 109.74	$ 112.63	$ 115.64
Operating Expenses	(91.70)	(90.05)	(92.78)	(94.76)	(97.30)
Net Income — Operations	12.43	16.92	16.96	17.87	18.34
Net Income — Real Estate	6.48	6.83	7.28	7.77	8.21
Other Income	0.27	0.30	0.30	0.30	0.30
Net Income (before depreciation and interest)	19.18	24.05	24.54	25.94	26.85
Depreciation	(12.64)	(13.35)	(13.67)	(13.59)	(13.54)
Interest Expense	(1.08)	(0.96)	(0.88)	(0.77)	(0.67)
Net Income (earned without Preventive Maintenance)	5.46	9.74	9.99	11.58	12.24
Preventive Maintenance Reimbursement	5.64	5.97	6.15	6.33	6.52
Net Income	$ 11.10	$ 15.71	$ 16.14	$ 17.91	18.76

LANDSCAPE

This chapter presents the Alaska Railroad positions on "Hot Topics" with potential significant impact to our business or operating environment.

Federal Transportation Funding

Background: When the State of Alaska purchased the Alaska Railroad in 1985, it received a railroad in disrepair. While the federal government partially rehabilitated the badly worn out railroad after World War II, it invested very little in maintenance after that effort. Today, Alaska's congressional delegation works hard to ensure that the ARRC is on equal footing with other railroads, including transit systems that provide passenger services. As a result, the Transportation Equity Act for the 21st Century (TEA-21) provided an authorization for annual appropriations for capital grants to ARRC to maintain and improve its passenger-related facilities and other infrastructure. We fully expect the new reauthorization act (TEA-LU) to do even more.

Position: ARRC expects continued capital grant assistance from the federal government to rehabilitate infrastructure and to improve passenger services, including preparations eventually leading to commuter rail. As transportation appropriation bills are crafted and reauthorized, ARRC will work with Alaska's congressional delegation to maintain grant recipient status and to develop a coordinated federal agency approach to grant administration.

Taxing the Railroad

Position: First and foremost, both state and federal law expressly prohibit the use of railroad revenues from being used for anything other than railroad purposes. But there are also practical reasons why the railroad should retain its revenues and not be taxed. Before net earnings are calculated, ARRC pays for its operating and maintenance expenses, including pay and benefits for its employees, who are not state employees. ARRC then invests its entire cash flow from net earnings back into maintaining and modernizing its capital infrastructure. ARRC not only effects upgrades and repairs, it is able to do so by leveraging a near 10-to-1-dollar return when it provides matching funds for federal grants. The backlog of ARRC capital needs is several hundred million dollars. Until such time as the ARRC is able to clear this backlog and then generate sufficient net earnings in excess of annual sustainment requirements, we believe that taxing the corporation would be premature and would constitute a poor business practice.

Railroad Tax-Exempt Bonding Authority

Position: ARRC supports using its tax-exempt bonding authority to finance projects that benefit the State of Alaska or its railbelt cities - such as the gas pipeline project. This project falls in line with the railroad's mission to foster state economic development. Collecting standard issuer transaction fees associated with assuming the fiduciary responsibility of administering such bonds over their lifetime would be appropriate. Any proceeds generated from fees should be directed back into railroad infrastructure to ensure the railroad can offer robust operational capacity for future rail supported development of Alaska resources.

> "The backlog of ARRC capital needs is several hundred million dollars. Until the ARRC is able to clear this backlog and then generate sufficient net earnings in excess of annual sustainment requirements, ... taxing the corporation would be premature and would constitute a poor business practice."

Public Involvement Policies

Position: The Alaska Railroad is committed to coordinating our planning, projects, and real estate activities with railbelt communities to reflect community-planning efforts and needs.

- We emphasize a proactive public involvement process to allow communities to participate in ARRC project decisions. This process includes our "heads up" direct mail correspondence initiative, our open house events, up-to-date information on our web site, a dedicated public involvement e-mail address, public comment hotlines, and regular community meeting presentations.

Partnering with Communities

Position: ARRC is seriously committed to partnering. Collaborative support for important community, borough and private sector initiatives can enhance prosperity along the railbelt and create conditions for success that enable a more prosperous Alaska. Examples of partnering include the following:

Depots and intermodal facilities:

- Palmer Alaska State Fair Intermodal Commuter Center: The ARRC administered funds and oversaw project management on behalf of the Alaska State Fair Intermodal Commuter Center in Palmer. This project was completed just prior to the start of the 2004 State Fair, offering better transportation choices for fair attendees through the use of expanded direct rail service. This project also provides improved transportation infrastructure for an increasing number of travelers moving to and from the state's fastest-growing area — the Mat-Su Valley.

- Ship Creek Intermodal Facility: The ARRC is working with the community of Anchorage on plans to construct an Intermodal Transportation Center, along with other related improvements, in the Ship Creek basin. The project calls for pedestrian amenities and a connection to downtown, transit infrastructure, parking, and rail modifications that will meet transportation growth demands for the next 30 years.
- Fairbanks Intermodal Facility and Depot: In 2005, the ARRC will complete the new Fairbanks depot and associated loop track. This project will allow faster on and off load of longer passenger trains, reduce operations and maintenance costs, and meet future growth in rail business demands within Alaska's interior.

Community projects: The ARRC is committed to improving the quality of life for Alaskans by participating in a number of community-based projects. Through funding and land permits, ARRC is partnering with many communities as well as the State Department of Transportation & Public Facilities (ADOT/PF) to build safe pedestrian trails and access. The Ship Creek Trail in Anchorage, Mile 0-8 trail in Seward, and Richardson Highway trail, are three current examples. In Palmer, ARRC is working with the City of Palmer to facilitate installation of water/sewer lines along ARRC's right-of-way to service the new Valley hospital.

Planning: ARRC has contributed both money and considerable staff time to several railbelt formal community planning efforts to enhance our mutual development interests, especially as they relate to building and improving Alaska's transportation infrastructure. ARRC is currently working with the Metropolitan Planning Organizations in Fairbanks and Anchorage to update their long-range transportation plans and is actively engaged in development of the Matanuska-Susitna Borough long-range transportation plan. ARRC is a participant in the Port of Anchorage Working Group to facilitate the development of the Port and to support the movement of military resources to and from this strategic location.

Corporate Giving: The railroad and its employees support communities through charitable giving, school business partnership programs, the United Way match program, and membership participation in many civic organizations. As permitted by a statutory provision, the railroad leases land to many communities at less than fair market value for trails, parks, and other public amenities.

Regional Transportation Planning

Position: ARRC fully supports local regional transportation planning and serves on a number of planning groups, including AMATS, FMATS, Trans Vision, and the Regional Transportation Planning Organization (RTPO). Local officials often seek a broader perspective on how their projects impact state transportation - often well beyond local jurisdiction. ARRC believes transportation projects sell better when they are imbedded in the context of a regional plan. Accordingly, we advocate transportation analysis, which is focused on transportation nodes, linkages, and the intermodal transition points that join them. This preferred methodology consists of a more rigorous examination of the effects and unintended consequences of proposed city and state transportation projects. ARRC believes ADOT/PF should be the cognizant authority over local projects that create regional impacts.

Rail Extensions

Position: ARRC will take its lead from state and federal policy makers regarding rail extension initiatives. ARRC supports extending or building new railroad lines in Alaska and believes this falls under its mission to foster state and community economic development. ARRC does not generate the capital funding necessary to proceed with some of the larger proposed rail extension projects ($3-$8 million/mile), but stands ready to provide planning, technical, engineering and operational expertise should funding be identified. ARRC assumes it will always be expected to generate sufficient revenues to pay the operating expenses of any rail extensions, and that the decision to extend Alaska Railroad track will be made with that imperative in mind.

- Canadian Rail Extension: To reach the Alaska/Canadian border, approximately 270 miles of track would need to be constructed in Alaska. Approximately 1,000 miles would need to be constructed in Canada. ARRC has been supportive of recent legislative and congressional efforts to study such an initiative and will continue to lend its planning expertise to the process.
- Rail Extension to Fort Greely: We believe the time is right to extend the railroad to Fort Greely to support national defense objectives. To further promote this project, ARRC will provide use of its tax-exempt bonding authority to help buy down the project cost ($500 million in bonding authorization was pre-approved by the state legislature in 2004). ARRC would manage design and construction. This extension conveniently aligns with proposed legislation to extend the rail to Canada, offers potential flood control benefits, and passes close by both agricultural and mineral developments. Moreover, it aligns with a proposed state corridor that might include provisions for a natural gas pipeline.
- Northwest Arctic Rail: Extremely expensive, this initiative nonetheless opens up previously inaccessible energy and mineral resources to developers. Should such an initiative take root, ARRC would be pleased to be a member of the planning group.

Rail Realignments

Position: ARRC supports realigning its main line track around Alaska communities that have grown up too densely along the track. The issue is one of enhancing both safety and efficiency. Fairbanks and Wasilla realignments would each eliminate numerous dangerous at-grade crossings as well as reduce the running time of our interior train routes. Both realignments are significant undertakings, and the railroad does not yet have internal or federal funding to proceed with either project on its own. We will continue working to integrate our recommendations with community and ADOT/PF planning efforts. We will be ready with plans when federal funding becomes available.

- Fairbanks-North Pole Realignment (Ph-1, Ph-2): Eliminates 48 at-grade crossings. Starting the environmental phase.
- Wasilla Realignment: Eliminates 11 at-grade crossings. Currently in the environmental assessment phase.
- Nenana Realignment: Reduces potential for crossing accidents at six at-grade crossings when the highly circuitous main line becomes a spur. Currently in the environmental assessment phase.

Planning & Zoning Jurisdiction over the Railroad

Background: Several federal laws contain language that essentially preempts or eliminates state and local regulatory authority over the railroad except in very limited circumstances. For years, local governments and states have tried to restrict railroad hours of transportation, speeds, loading requirements, routes, etc., and the federal government has been vigorous in defending railroads nationwide with regard to industry rights to operate without local interference in order to protect interstate movement of commerce. To that end, ARRC remains under the jurisdiction of the Federal Railroad Administration and the Federal Surface Transportation Board. But in conjunction with its federal protection, ARRC is also an instrumentality of the State of Alaska. The Alaska Supreme Court recently held that ARRC is not automatically exempt from local planning and zoning land use regulations, despite its status as a state instrumentality. As a result, until the state legislature decides to pass clarifying language on the issue, the Supreme Court decision requires the Railroad to first attempt to comply with local planning and zoning procedures. If the result of the local process is unsatisfactory for the Railroad, the courts must resolve the intergovernmental dispute by applying, in each case, a "balancing of interests" test to determine whether the legislature intended the Railroad to be immune from local zoning in that particular situation. Each decision is then subject to appeal on both sides.

Position: ARRC travels through 13 recognized municipal and borough governments between Seward and North Pole. If both the federal and state exemptions were removed, local communities could dictate inconsistent and onerous planning and zoning restrictions which would negatively impact the railroad's ability to offer efficient, economical and reliable service to its freight and passenger customers. While Railroad train operations are protected by federal regulations for interstate commerce, the Railroad's non-operating lands are now subject to the "balancing of interests test", required by the state Supreme Court. Because this will lead to unpredictable results, and precipitate lawsuits that will greatly slow economic development projects, the ARRC is requesting legislative clarification on the issue.

Commuter Rail Service

Position: ARRC supports developing Alaska's intermodal and commuter rail services as transportation options for the traveling public. We are prepared to assist the local communities if policy makers and residents decide to initiate commuter rail service. The Railroad will continue to plan and build infrastructure in a way that can enable and support such services when we are called upon to do so. ARRC does not necessarily see itself as the sole proprietor of commuter rail operations. A transit authority may function better in that role.

Trails in ARRC's Right-of-Way

Position: In general, the Railroad right-of-way is not a safe or appropriate location for a trail. However, ARRC will always consider use of its right-of-way for trails if there are no other feasible alternatives. For the Railroad, the issue is purely a matter of safety and liability risk. Because any trail seeking to use the right-of-way presents substantial liabilities for the Railroad, such trails must be constructed in a way to specifically mitigate the risks involved. Furthermore, such trails must not negatively impact railroad operations, they must be maintained and insured by an entity other than the Railroad, and that entity must agree to indemnify ARRC for all related claims.

Ship Creek Environmental Study

Background: Under Environmental Protection Agency (EPA) direction and oversight, the Alaska Railroad is undertaking a long-term environmental remedial investigation and assessment on 600 acres of railroad land just north of downtown Anchorage. The process, which may take several years to conclude, will determine the nature and extent of any discovered contamination, assess the risk to human health and the environment, and develop and evaluate alternatives for any cleanup that may be needed. Railroad operations and other industrial uses in the Ship Creek area began over 90 years ago. From 1915 to 1985, various agencies of the federal government, including the Federal Railroad Administration (FRA), owned and operated the railroad. The Alaska Railroad was purchased by the state in 1985, and the Federal Transfer Act contains provisions under which the federal government has responsibility for any environmental issues originating prior to transfer.

Position: The Alaska Railroad is committed to operating in compliance with all federal, state and local environmental policies. The Railroad recognizes the importance of protecting the environment and accepts this trust and stewardship. But as a business, the Alaska Railroad is also working hard to ensure that any cleanup activities and associated costs will be shared cooperatively with any owners/operators of the Ship Creek railroad lands who had previous responsibility for fouling the property. These past owners include both the Federal government as well as private leaseholders. Additionally, the Railroad is committed to developing the Ship Creek area to benefit the community and local economy. ARRC is working actively to ensure the environmental study will not unduly hamper this progress.

Railroad Crossings

Background: The Alaska Railroad has hundreds of crossings along the railbelt from Seward to the interior. Many of these crossings (293) are at-grade crossings (road and rail crossing at same level) that present safety and liability risks to the Railroad, the traveling public, and other local and state agencies. The Railroad is dealing with an ever increasing number of requests to approve even more at-grade crossings, many of which try to conveniently access new private developments well after construction has started.

Position: The Railroad is responsible for protecting both the public and its own employees in day-to-day operations. At-grade crossings are inherently a risk to both. In the United States the average is one death per day at a railroad crossing. The Alaska Railroad is reviewing all of its crossings to ensure each serves a valid need, proper protective devices are installed, and maintenance and liability agreements are in place. The Railroad believes up to twenty-five percent of the at-grade crossings in Alaska may be unnecessary and so has adopted a five-year objective to eliminate these crossings. Some necessary crossings are scheduled for grade separation as part of ADOT/PF road projects. But many others provide redundant access, are not covered by a permit, or present tremendous safety concerns. They will be targeted for closure. The Alaska Policy on Railroad/Highway Crossings, which utilizes a diagnostic team assessment consisting of local, state, and Railroad participants, will guide crossing closure decisions. The Alaska Railroad will also implement a comprehensive public involvement plan for each proposed closure, to identify property access challenges and other community issues prior to making the final determination. ARRC is soliciting legislator support for this safety measure, even though it is often unpopular with affected individual constituents.

State Executive Budget Act

Position: The ARRC business model, as it exists today, works very well. Language in the Alaska Railroad Corporation Transfer Act was written by legislators who understood the need for the State-owned railroad to operate independently, and for railroad business, safety and environmental decisions to be made based on the facts and merits of the situation, not unnecessarily biased or encumbered by regulatory or political considerations. Any potential dependence on the State's general fund would automatically bring with it the likelihood of additional State legislative oversight. Such oversight would interject the slower pace of politics into the high tempo day-to-day decision-making of a very complex and dynamic transportation business. ARRC customers depend on the Railroad's ability to respond quickly to market demands. Our management team / Board of Directors relationship is well suited to the task. The model has worked very well for 20 years. As a result, the Alaska Railroad has never requested State dollars for its operation. If allowed to continue the course, ARRC will not require State subsidies in the future.

Privatization

Position: In our opinion, privatization would generate considerable business risk for citizens of the Alaska owner state. If ARRC became a privately owned enterprise, it would have to pay taxes, it may not have access to federal grant money, and it would undoubtedly be forced to relinquish most of the 36,000 acres of land ARRC currently owns for exclusive right-of-way, rail operations and lease revenue. It would not be able to sell tax-free bonds. In concert with one another, those are all essential factors contributing to ARRC's ability to function profitably each year without having to go to the State for general fund subsidy. In our opinion, a private owner could not continue the present level of service to all our customers and be profitable at the same time, based solely on operational revenues. The economics simply do not "pencil out." Failure of privatization would bleed assets and eventually force the State to take back a dysfunctional remnant of the former corporation, rebuild it at great cost, and probably make it a ward of the State, thereafter subsidized from the State's general fund.